



CEO and Senior Executive Compensation in Private Companies 2015-16

EXECUTIVE SUMMARY

About the Research

Chief Executive Research surveyed 1,186 companies in April thru June of 2015 about their 2014 fiscal year compensation levels and practices, as well as their current and expected compensation levels for senior executives for the remainder of 2015. Detailed data from this survey is analyzed and presented in our acclaimed annual *CEO & Senior Executive Compensation Report for Private Companies*.

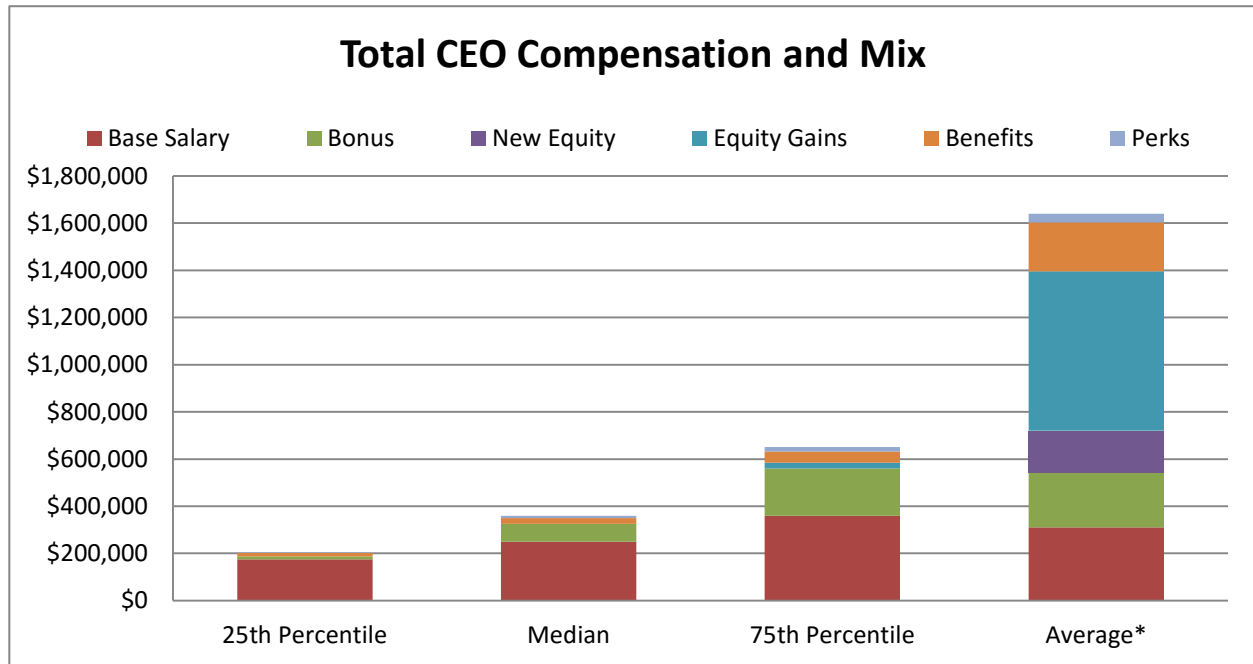
We received detailed data about compensation packages for CEOs and nine other senior executive positions, as well as comprehensive information about each company's executive compensation policies and practices. The substantial response provided meaningful data for companies across revenue ranges, industries, regions, ownership types, levels of profitability and growth trajectories.

While most data sources on CEO compensation focus on the largest public companies, our research gives truer insight into the compensation of CEOs of the approximately 6 million private companies in the U.S., not just the S&P 500.

Please refer to the full report for complete compensation data broken down by company demographics and performance.

2014 CEO Compensation

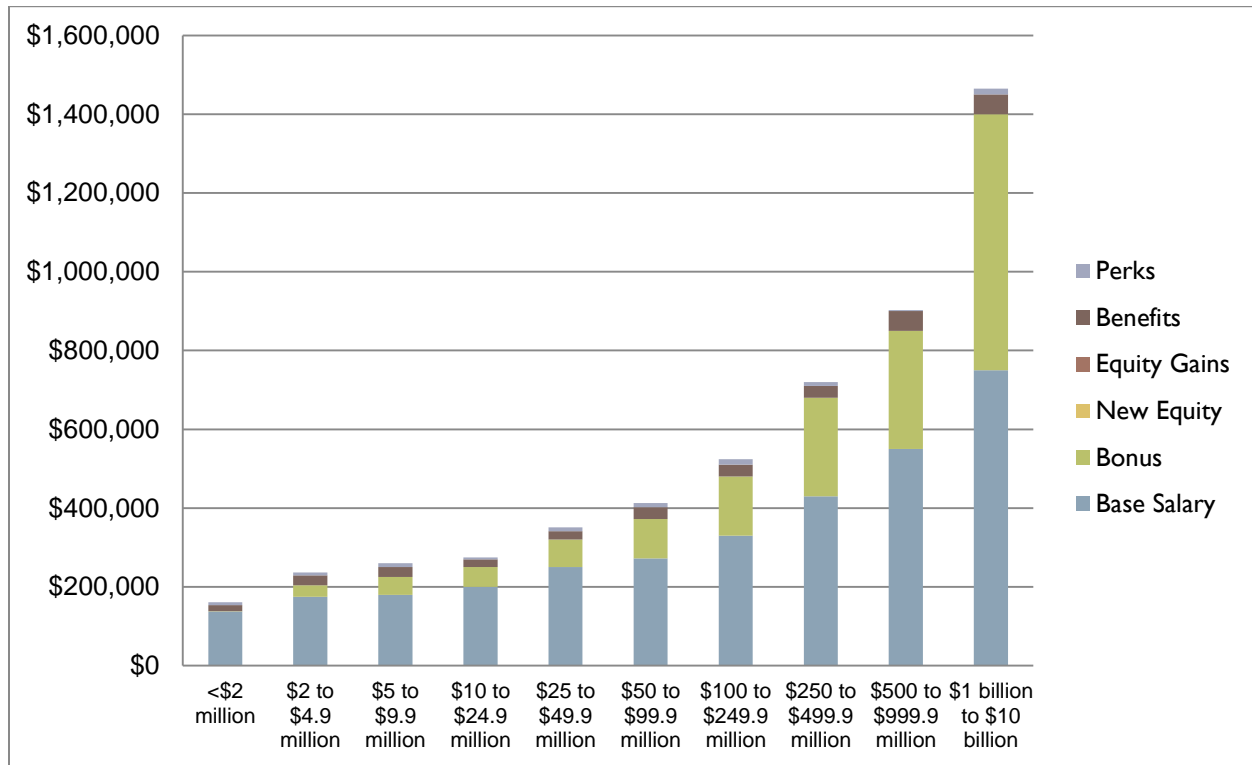
The average private company CEO total compensation package for 2014 was \$1,639,257 but the median was a more modest \$360,000. These figure includes base salary, bonus, equity appreciation, new equity/option grants, benefits, and perquisites.. The average total compensation figure is significantly higher than the median total compensation, as CEOs at the largest private companies have pay packages substantially greater than those at smaller companies, pushing up the average. In addition, a small percentage of CEOs had liquidity events (their companies were sold and/or revalued), driving up average equity gains well above the median.



The median cash compensation (base salary and bonus) was \$325,000—90.3% of the total compensation package and the “at risk” portion (or bonuses) was 23% of their cash compensation. For this year’s median survey participant, this represented a 2.9% increase in their cash compensation over the prior year (a 2.8% increase in their base salaries and a 3.3% increase in their bonus). The vast majority of CEOs in the study did not record any equity appreciation over the past year, nor did they receive any new in-the-money options or equity grants. 2015 base salaries are flat with 2014 overall, but median bonuses are expected to increase to \$85,000 for a cash compensation increase of 3.1% overall.

CEO Compensation is Highly Correlated with Company Size and Success

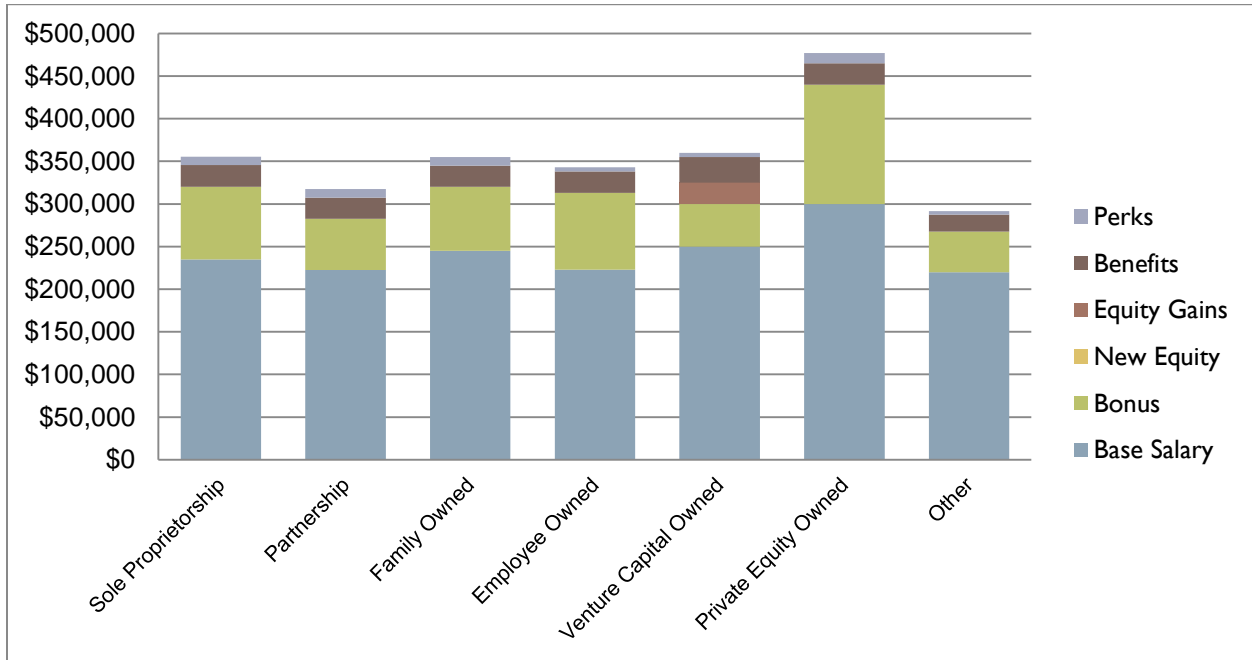
Private company CEO compensation is very highly correlated with the size of the company, both in terms of revenue (as the chart on the following page demonstrates) and number of employees. The larger and more complex an organization is, the more substantial the compensation package provided to the CEO. The mix between base salary and at risk compensation (bonuses and equity incentives) also shifts dramatically by size of company (as well as by other variables such as industry and type of ownership).



The median total compensation package for CEOs of companies with over \$1 billion in revenue is more than double that of CEOs whose companies generate between \$100 and \$250 million in revenues. The median CEO running a company with between \$10 and 25 million in revenues earned only 18.8% of the total compensation of CEOs of the largest companies in our survey. While the median CEO didn't record a change in their equity stake, he/she did own a \$600,000 equity stake in their business (although this figure varied significantly by company size and type of ownership, also detailed in the full report).

CEO Compensation Varies by Ownership Type

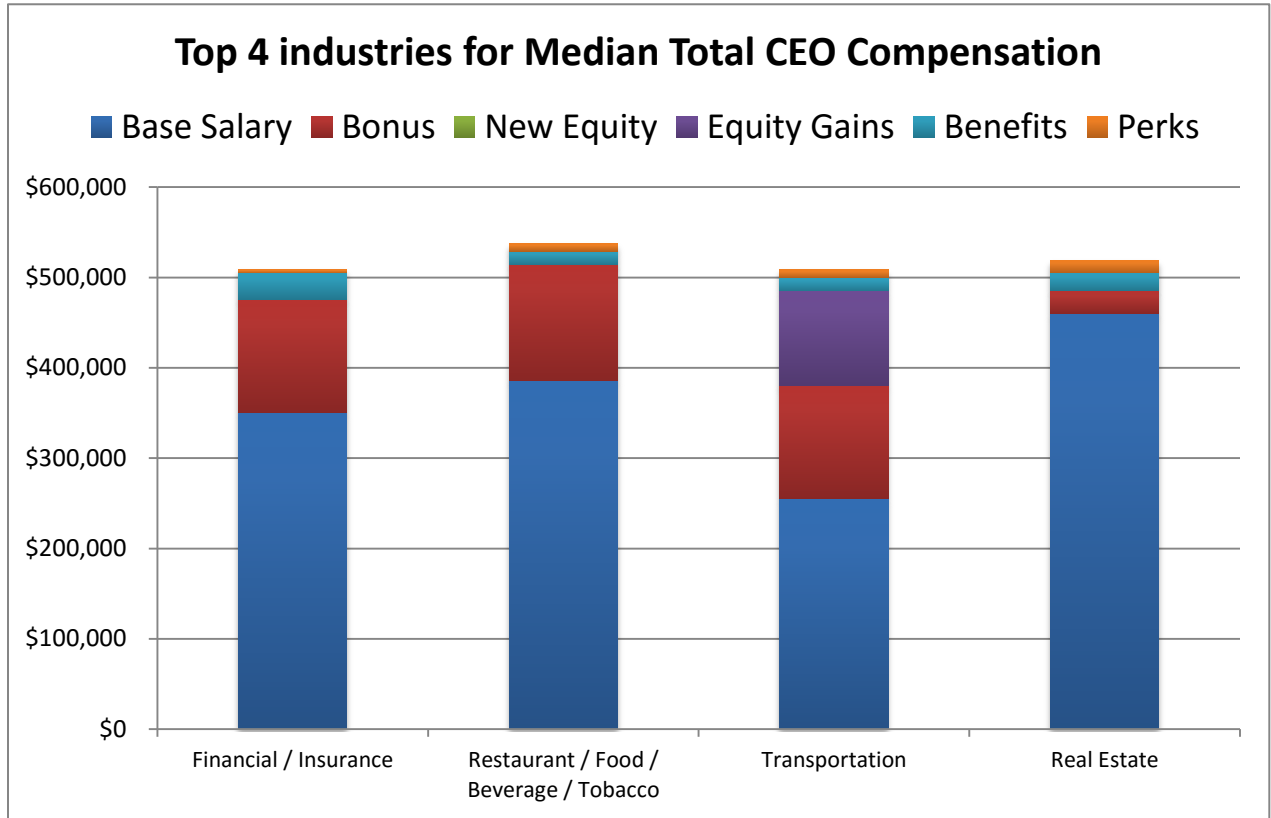
There are a variety of types of private company ownership: sole proprietorships, partnerships, family businesses, employee owned, private group of outside investors (e.g. angel investors), private equity owned, and venture capital backed. CEO compensation varied substantially based on the ownership type of the company:



CEOs of private equity backed companies had the highest total compensation packages overall. The median private equity backed CEO compensation packages was 34% higher than that of sole proprietor CEOs. Some of this difference was attributable to differences in the average size of sole proprietorships vs. private equity firms (the latter has a larger median size); in the full report, which breaks out the ownership types by revenue range, one can see that while sole proprietors of smaller companies earned more than their peers, at larger companies, the CEOs of private equity owned companies receive the highest median remuneration.

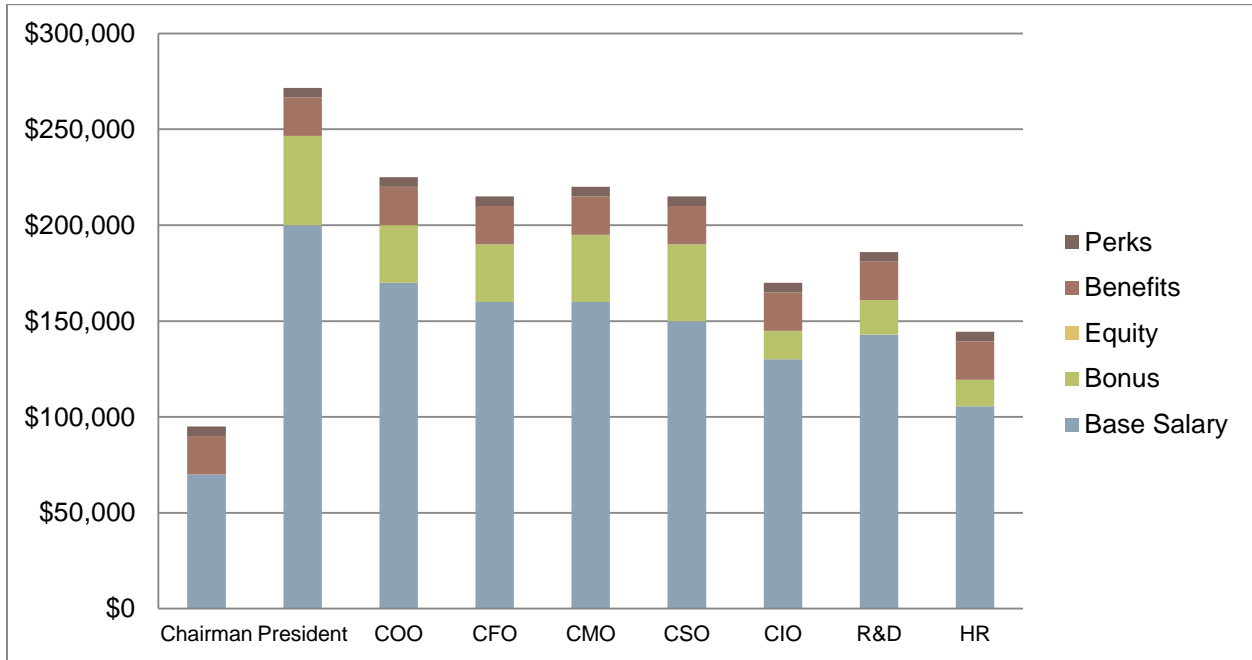
CEO Compensation by Industry

There were significant differences by industry in 2014 and from the prior year. While CEOs in Finance/Insurance and Restaurant/Food/Beverage industries continued to enjoy high median compensation packages, the CEOs in Oil & Gas, Media and Advertising, who were among the top earners in 2013, were no longer in the top spots. This is consistent with the pricing and profit challenges these industries are facing. They were replaced at the top by CEOs in the Real Estate and Transportation industries, who are enjoying robust profits with the increase in real estate values and the reduction in gas prices.



The full research report provides detailed compensation information for 17 different industries.

Senior Executive Compensation



As expected, compensation varies by job title and responsibility. After the CEO, the most highly compensated senior executive position is President, with a median total compensation package of \$271,000, followed by the senior operations executive (COO), with a median total compensation package of \$225,000.

Consistently with prior years, Chairmen in our survey received relatively low compensation. In fact, the median base salary for Chairmen was just \$95,000 for 2014. Chairmen in private companies often own substantial equity positions in their companies, therefore many forego cash compensation unless they are actively involved in daily operations.

There were significant variations for compensation in the above titles by company size, industry, ownership type, level of growth, profitability, and other factors. For example, whereas Chairmen in partnerships and family businesses earned more than their peers, CIOs and heads of R&D in tech companies and venture capital owned companies earned substantially more than their peers in other industries and ownership types. CFOs in private equity and venture capital owned companies earned substantially more than their peers. Complete breakdowns of how senior executive compensation varies by these factors are available in the full report.

Compensation Best Practices

Compensation is a strategic tool to align a company's most important talent with the overall business strategy. Properly crafted, an executive compensation plan will attract top-notch talent, retain best performing executives, motivate the leadership team to succeed, and help ensure the company's goals are being reached.

The best performing companies use incentive-based compensation to achieve the aforementioned goals. However, 65.4% of companies with under \$50 million in revenues do not have formal long-term incentive plans -- and 30.75% of companies with over \$100 million in revenue (which one would expect to be more "sophisticated") do not either. Among companies that do have a formal long-term incentive plan, only 31.4% use performance-based vesting in their plans, as opposed to 68.6% who use only time-based vesting. Further, more than half of private companies do not have their company value appraised at regular intervals, meaning senior executives have no idea what their equity-linked incentives are truly worth.

Based on our comprehensive research, most private companies spend a significant amount of money on executive compensation, but they are not spending it optimally as a strategic tool. There is great leverage in refining one's executive compensation programs to align key executives' incentives for outstanding vs. average performance.

For More Information

More detailed information (including quartiles) on base salaries, bonuses, equity grants and gains, benefits, perks, and company compensation policies and practices -- and how these elements vary by company size, industry, ownership type, geographic region, and other key variables -- is available in the full report. For additional information about the 2015-2016 *CEO & Senior Executive Compensation Report for Private Companies*, please visit ChiefExecutive.net/compreport. As a survey participant, you are entitled to an additional \$1,000 discount off the \$2,495 discount price, so use discount code "CompRespondent2015" in the source code box of the order page. If you have any questions, feel free to contact the lead author Wayne Cooper at wcooper@chiefexecutive.net.